

UNDERWOOD COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2007

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Underwood Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2006 election)</b>		
Neil Darrington	President	2007
Lucy Hough	Vice President	2006
Kris Tilley	Board Member	2006
Julie Handbury	Board Member	2007
Tim Schwery	Board Member	2008
<b>Board of Education (After September 2006 election)</b>		
Julie Handbury	President	2007
Neil Darrington	Vice President	2007
Tim Schwery	Board Member	2008
Keith Petersen	Board Member	2009
Greg Konsor	Board Member	2009
<b>School Officials</b>		
Ed Hawks	Superintendent	2007
Shelley Naig	District Secretary and Treasurer	2007
James Hanks	Attorney	2007

**NOLTE, CORNMAN & JOHNSON P.C.**  
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Underwood Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Underwood Community School District, Underwood, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Underwood Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 12, 2008 on our consideration of Underwood Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 36 through 37 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Underwood Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 12, 2008

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Underwood Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$5,447,515 in fiscal 2006 to \$5,908,977 in fiscal 2007, while General Fund expenditures increased from \$5,556,333 in fiscal 2006 to \$5,658,420 in fiscal 2007. This resulted in an increase in the District's General Fund balance from \$361,421 in fiscal 2006 to \$611,978 in fiscal 2007, a 69.33% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in property taxes and state grant revenues in fiscal 2007. The increase in expenditures was due primarily to an increase in negotiated salaries and benefits.
- The District received \$535,021 in local option sales and service tax during the year.
- September 2006 Certified Enrollment count resulted in a decrease of 13.9 students, representing a 1.9% decrease compared to the prior year.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Underwood Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Underwood Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Underwood Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**

***Underwood Community School District Annual Financial Report***

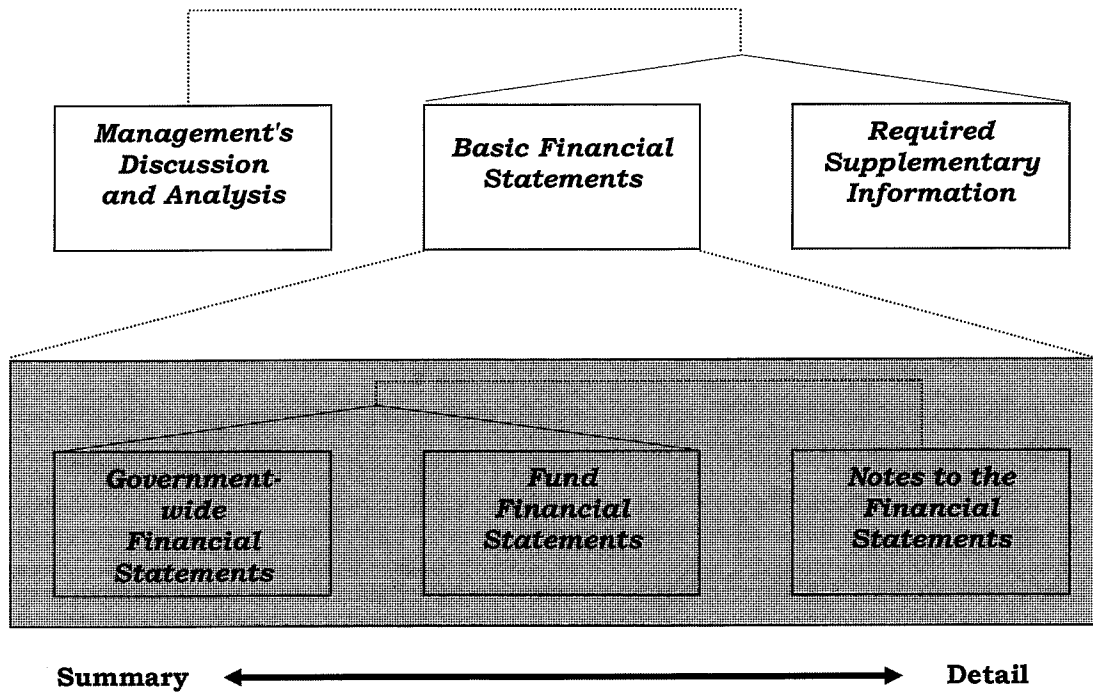


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**

***Major Features of the Government-Wide and Fund Financial Statements***

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.



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The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects and Debt Service.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition and the Latch Key Fund. The District's internal service fund, one type of proprietary fund, is the same as the governmental activities, but provide more detail and additional information, such as cash flows. The District currently has one internal service fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Private-Purpose Trust Fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliation between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 11,245,964	5,046,297	54,629	43,046	11,300,593	5,089,343	122.04%
Capital assets	1,902,336	1,036,668	5,250	4,562	1,907,586	1,041,230	83.21%
Total assets	13,148,300	6,082,965	59,879	47,608	13,208,179	6,130,573	115.45%
Long-term liabilities	5,515,180	16,399	0	0	5,515,180	16,399	33531.20%
Other liabilities	3,600,201	2,731,167	24,041	23,919	3,624,242	2,755,086	31.55%
Total liabilities	9,115,381	2,747,566	24,041	23,919	9,139,422	2,771,485	229.77%
Net assets:							
Invested in capital assets, net of related debt	1,902,336	1,036,668	5,250	4,562	1,907,586	1,041,230	83.21%
Restricted	1,654,158	1,938,916	0	0	1,654,158	1,938,916	-14.69%
Unrestricted	476,425	359,815	30,588	19,127	507,013	378,942	33.80%
Total net assets	\$ 4,032,919	3,335,399	35,838	23,689	4,068,757	3,359,088	21.13%

The District's combined net assets increased by 21.13% or \$709,669 over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased \$284,758 or 14.69% over the prior year. The decrease was primarily due to the decrease in the restricted part of the Capital Projects Fund balance.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased \$128,071 or 33.80%. The increase was primarily due to the increase in the General Fund balance.

Figure A-4 shows the changes in net assets for the years ended June 30, 2007 and June 30, 2006.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 807,243	778,860	266,085	240,971	1,073,328	1,019,831	5.25%
Operating grants and contributions and restricted interest	636,571	550,235	85,100	87,230	721,671	637,465	13.21%
Capital grants and contributions and restricted interest	14,608	10,392	0	0	14,608	10,392	40.57%
General revenues:							
Property tax	2,149,626	1,878,931	0	0	2,149,626	1,878,931	14.41%
Local option sales and service tax	535,021	619,799	0	0	535,021	619,799	0.00%
Unrestricted state grants	2,645,114	2,580,697	0	0	2,645,114	2,580,697	2.50%
Other	344,077	131,596	696	1,077	344,773	132,673	159.87%
Transfers	(17,912)	0	0	0	(17,912)	0	-100.00%
Total revenues	7,114,348	6,550,510	351,881	329,278	7,466,229	6,879,788	8.52%
Program expenses:							
Governmental activities:							
Instructional	3,770,172	3,682,391	0	0	3,770,172	3,682,391	2.38%
Support services	2,248,637	2,028,837	0	0	2,248,637	2,028,837	10.83%
Non-instructional programs	0	0	339,732	329,777	339,732	329,777	3.02%
Other expenses	398,019	321,077	0	0	398,019	321,077	23.96%
Total expenses	6,416,828	6,032,305	339,732	329,777	6,756,560	6,362,082	6.20%
Change in net assets	697,520	518,205	12,149	(499)	709,669	517,706	37.08%
Net assets beginning of year	3,335,399	2,817,194	23,689	24,188	3,359,088	2,841,382	18.22%
Net assets end of year	\$ 4,032,919	3,335,399	35,838	23,689	4,068,757	3,359,088	21.13%

In fiscal 2007, property tax, local option sales and services tax and unrestricted state grants account for 74.92% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.80% of the revenue from business type activities.

The District's total revenues were approximately \$7.5 million of which \$7.1 million was for governmental activities and \$.4 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 8.52% in revenues, net transfers and a 6.20% increase in expenses. The increase in expenses was related to the increase in negotiated salaries and benefits.

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## Governmental Activities

Revenues, net transfers for governmental activities were \$7,114,348 and expenses were \$6,416,828.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 3,770,172	3,682,391	2.38%	2,557,339	2,576,227	-0.73%
Support services	2,248,637	2,028,837	10.83%	2,225,319	2,012,591	10.57%
Other expenses	398,019	321,077	23.96%	175,748	104,000	68.99%
Totals	\$ 6,416,828	6,032,305	6.37%	4,958,406	4,692,818	5.66%

- The cost financed by users of the District's programs was \$807,243.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$651,179.
- The net cost of governmental activities was financed with \$2,149,626 in property tax, \$535,021 in local option sales and service tax, \$2,645,114 in unrestricted state grants, \$280,945 in interest income and \$63,132 in other general revenues.

## Business-Type Activities

Revenues of the District's business-type activities were \$351,881 and expenses were \$339,732. The District's business-type activities include the School Nutrition and Latch Key Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Underwood Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$7,773,268, above last year's ending fund balances of \$2,311,644. However, the primary reason for the increase was the increase in the fund balance of the Capital Projects due to the issuance of \$5,445,000 in general obligation bonds to finance construction costs.

## Governmental Fund Highlights

- The District's General Fund balance increased from \$361,421 on June 30, 2006 to \$611,978 on June 30, 2007. The fluctuation in the District's General Fund financial position is the product of many factors. An increase in the local tax and state grant revenue during the year resulted in an increase in total revenues. Revenues exceeded the increase in expenditures caused by increases in negotiated salaries and benefits, utilities and transportation costs. Overall, the District's General Fund balance increased by \$250,557.

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- The Capital Projects fund balance increased during the current year, from \$1,787,653 to \$6,985,017. The District issued \$5,445,000 in general obligation bonds to finance capital facility construction on the New Middle School/Elementary Expansion Project.

### **Proprietary Fund Highlights**

The Enterprise Funds net assets increased from \$23,689 at June 30, 2006 to \$35,838 at June 30, 2007, representing an increase of 51.29%.

## **BUDGETARY HIGHLIGHTS**

The District's revenues were \$89,768 less than budgeted revenues, a variance of 1.19%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is not the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District's budget is developed utilizing realistic projections of revenues and expenditures. The district then manages or controls General Fund spending through its line-item budget. In situations where revenues exceed projections, and expenditures do not exceed spending authority, the Board may take action to amend the budget authorizing additional expenditures.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs function due to the timing of disbursements paid at year-end.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2007, the District had invested \$1,907,586, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 83.12% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$90,918.

The original cost of the District's capital assets was \$5,803,494. Governmental funds account for \$5,769,929 with the remainder of \$33,565 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The construction in progress totaled \$774,473 at June 30, 2007, compared to \$0 reported at June 30, 2006. This increase resulted from the expenses incurred and paid by the District for the New Middle School/Elementary Expansion Project that was started during the year. The balance will be capitalized upon completion.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 97,590	97,590	0	0	97,590	97,590	0.00%
Construction in progress	774,473	0	0	0	774,473	0	100.00%
Buildings	813,319	798,302	0	0	813,319	798,302	1.88%
Land improvements	107,194	16,373	0	0	107,194	16,373	554.70%
Machinery and equipment	109,760	124,403	5,250	4,562	115,010	128,965	-10.82%
Total	\$ 1,902,336	1,036,668	5,250	4,562	1,907,586	1,041,230	83.21%

### Long-Term Debt

At June 30, 2007, the District had \$5,515,180 in general and other long-term debt outstanding. This represents an increase of 33,531.20% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$5,445,000 at June 30, 2007.

The District had total outstanding Early Retirement payable from the Special Revenue - Management Levy Fund of \$70,180 at June 30, 2007.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
General obligation bonds	\$ 5,445,000	0	100.00%
Early retirement	70,180	16,399	327.95%
Total	\$ 5,515,180	16,399	33531.20%

### ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and enrollment fluctuations may negatively impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget. The district's cash balance will support short term funding shortfalls from the state.
- Federal legislation with respect to student achievement in the future years may result in sanctions that could have financial implications for the general fund operating budget. The "No Child Left Behind" act of 2001 applies sanctions to underperforming schools that, if the school remains under-performing (as defined by the act) allows the parents of pupils in the school to move to another school, transferring their funding to the new school. This act applies to individual school facilities and does not necessarily apply to school districts,

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however, the revenue impact to a school district could be material if the school district has a school facility that under-performs and starts to lose enrollment.

- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Shelley Naig, District Board Secretary/Treasurer, Underwood Community School District, P.O. Box 130, Underwood, Iowa, 51576.

## BASIC FINANCIAL STATEMENTS



UNDERWOOD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 8,230,368	50,040	8,280,408
Receivables			
Property tax:			
Delinquent	16,759	0	16,759
Succeeding year	2,851,280	0	2,851,280
Accounts	1,736	0	1,736
Due from other governments	145,821	0	145,821
Inventories	0	4,589	4,589
Capital assets, net of accumulated depreciation (Note 5)	1,902,336	5,250	1,907,586
<b>Total Assets</b>	<b>13,148,300</b>	<b>59,879</b>	<b>13,208,179</b>
<b>Liabilities</b>			
Accounts payable	90,134	0	90,134
Salaries and benefits payable	529,696	21,116	550,812
Accrued interest payable	129,091	0	129,091
Deferred revenue:			
Succeeding year property tax	2,851,280	0	2,851,280
Unearned revenues	0	2,925	2,925
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds	90,000	0	90,000
Early Retirement	70,180	0	70,180
Portion due after one year:			
General obligation bonds	5,355,000	0	5,355,000
<b>Total Liabilities</b>	<b>9,115,381</b>	<b>24,041</b>	<b>9,139,422</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,902,336	5,250	1,907,586
Restricted for:			
Debt service	3,074	0	3,074
Salary improvement program	93	0	93
Additional teacher contract days	2,882	0	2,882
Market factor	5,073	0	5,073
Capital projects	1,540,017	0	1,540,017
Management levy	1,652	0	1,652
Physical plant and equipment levy	28,534	0	28,534
Other special revenue purposes	72,833	0	72,833
Unrestricted	476,425	30,588	507,013
<b>Total Net Assets</b>	<b>\$ 4,032,919</b>	<b>35,838</b>	<b>4,068,757</b>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
Instruction:							
Regular instruction	\$ 2,576,073	464,152	369,435	0	(1,742,486)	0	(1,742,486)
Special instruction	578,620	95,046	36,300	0	(447,274)	0	(447,274)
Other instruction	615,479	247,900	0	0	(367,579)	0	(367,579)
	3,770,172	807,098	405,735	0	(2,557,339)	0	(2,557,339)
Support services:							
Student services	150,554	0	0	0	(150,554)	0	(150,554)
Instructional staff services	222,390	0	0	0	(222,390)	0	(222,390)
Administration services	796,643	0	0	0	(796,643)	0	(796,643)
Operation and maintenance of plant services	739,857	0	0	14,608	(725,249)	0	(725,249)
Transportation services	339,193	145	8,565	0	(330,483)	0	(330,483)
	2,248,637	145	8,565	14,608	(2,225,319)	0	(2,225,319)
Other expenditures:							
Long-term debt interest	124,480	0	0	0	(124,480)	0	(124,480)
AEA flowthrough	222,271	0	222,271	0	0	0	0
Depreciation(unallocated)*	51,268	0	0	0	(51,268)	0	(51,268)
	398,019	0	222,271	0	(175,748)	0	(175,748)
Total governmental activities	6,416,828	807,243	636,571	14,608	(4,958,406)	0	(4,958,406)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	299,058	207,147	85,100	0	0	(6,811)	(6,811)
Latch Key	40,674	58,938	0	0	0	18,264	18,264
Total business-type activities	339,732	266,085	85,100	0	0	11,453	11,453
Total	\$ 6,756,560	1,073,328	721,671	14,608	(4,958,406)	11,453	(4,946,953)
General Revenues and Transfers:							
General Revenues:							
Property tax levied for:							
General purposes					\$ 2,096,106	0	2,096,106
Capital outlay					53,520	0	53,520
Local option sales and services					535,021	0	535,021
Unrestricted state grants					2,645,114	0	2,645,114
Unrestricted investment earnings					280,945	696	281,641
Other general revenues					63,132	0	63,132
Transfers					(17,912)	0	(17,912)
Total general revenues and transfers					5,655,926	696	5,656,622
Changes in net assets					697,520	12,149	709,669
Net assets beginning of year					3,335,399	23,689	3,359,088
Net assets end of year					\$ 4,032,919	35,838	4,068,757

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments	\$ 1,035,660	7,018,635	174,487	8,228,782
Receivables:				
Property tax:				
Delinquent	15,375	0	1,384	16,759
Succeeding year	2,225,834	0	625,446	2,851,280
Interfund	0	0	402	402
Accounts	1,736	0	0	1,736
Due from other governments	104,524	41,297	0	145,821
<b>Total Assets</b>	<b>\$ 3,383,129</b>	<b>7,059,932</b>	<b>801,719</b>	<b>11,244,780</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Interfund payable	\$ 402	0	0	402
Accounts payable	15,219	74,915	0	90,134
Salaries and benefits payable	529,696	0	0	529,696
Deferred revenue:				
Succeeding year property tax	2,225,834	0	625,446	2,851,280
Total liabilities	2,771,151	74,915	625,446	3,471,512
Fund balances:				
Reserved for:				
Debt service	0	0	3,074	3,074
Capital facility construction	0	5,556,181	0	5,556,181
Salary improvement program	93	0	0	93
Additional teacher contract days	2,882	0	0	2,882
Market factor	5,073	0	0	5,073
Unreserved	603,930	1,428,836	173,199	2,205,965
Total fund balances	611,978	6,985,017	176,273	7,773,268
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,383,129</b>	<b>7,059,932</b>	<b>801,719</b>	<b>11,244,780</b>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2007

Total fund balances of governmental funds (page 16)	\$ 7,773,268
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	1,902,336
Blending of the Internal Service Fund to be reflected on an entity-wide basis.	1,586
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(129,091)
Long-term liabilities, including bonds payable and early retirement payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(5,515,180)
Net assets of governmental activites (page 14)	<u>\$ 4,032,919</u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 1,971,186	535,021	178,440	2,684,647
Tuition	530,597	0	0	530,597
Other	125,558	241,049	250,843	617,450
State sources	3,188,185	0	124	3,188,309
Federal sources	93,376	0	14,608	107,984
Total revenues	5,908,902	776,070	444,015	7,128,987
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	2,507,876	0	16,399	2,524,275
Special instruction	578,620	0	0	578,620
Other instruction	382,887	0	228,119	611,006
	3,469,383	0	244,518	3,713,901
Support services:				
Student services	150,554	0	0	150,554
Instructional staff services	222,390	0	0	222,390
Administration services	774,263	15,881	7,923	798,067
Operation and maintenance of plant services	506,814	0	102,158	608,972
Transportation services	312,745	0	3,000	315,745
	1,966,766	15,881	113,081	2,095,728
Other expenditures:				
Facilities acquisitions	0	1,009,362	61,073	1,070,435
Long-term debt:				
Costs of issuance	0	54,766	0	54,766
AEA flowthrough	222,271	0	0	222,271
	222,271	1,064,128	61,073	1,347,472
Total expenditures	5,658,420	1,080,009	418,672	7,157,101
Excess(deficiency) of revenues over(under) expenditures	250,482	(303,939)	25,343	(28,114)
Other financing sources(uses):				
Issuance of general obligation bonds	0	5,445,000	0	5,445,000
Premium on the issuance of bonds	0	56,303	0	56,303
Accrued interest on bonds	0	0	3,074	3,074
Transfers in	0	0	2,950	2,950
Transfers out	0	0	(20,862)	(20,862)
Proceeds from the disposal of property	75	0	3,198	3,273
Total other financing sources(uses)	75	5,501,303	(11,640)	5,489,738
Net change in fund balances	250,557	5,197,364	13,703	5,461,624
Fund balance beginning of year	361,421	1,787,653	162,570	2,311,644
Fund balance end of year	\$ 611,978	6,985,017	176,273	7,773,268

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2007

Net change in fund balances - total governmental funds (page 18) \$ 5,461,624

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 955,780	
Depreciation expense	<u>(90,112)</u>	865,668

Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (1,900)

Proceeds from issuing long-term liabilities provide current financial resources to government funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. (5,445,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (129,091)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds, as follows:

Early Retirement		<u>(53,781)</u>
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Changes in net assets of governmental activities (page 15) \$ 697,520

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2007

	Business-Type Activities Enterprise Funds			Governmental Activities: Internal Service Fund
	School Nutrition	Latch Key	Total	
<b>Assets</b>				
Cash and pooled investments	\$ 12,527	37,513	50,040	1,586
Inventories	4,589	0	4,589	0
Capital assets, net of accumulated depreciation(Note 5)	5,250	0	5,250	0
<b>Total Assets</b>	<b>22,366</b>	<b>37,513</b>	<b>59,879</b>	<b>1,586</b>
<b>Liabilities</b>				
Salaries and benefits payable	17,417	3,699	21,116	0
Unearned revenue	2,925	0	2,925	0
<b>Total Liabilities</b>	<b>20,342</b>	<b>3,699</b>	<b>24,041</b>	<b>0</b>
<b>Net Assets</b>				
Invested in capital assets	5,250	0	5,250	0
Unrestricted	(3,226)	33,814	30,588	1,586
<b>Total Net Assets</b>	<b>\$ 2,024</b>	<b>33,814</b>	<b>35,838</b>	<b>1,586</b>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2007

	Business-Type Activities: Enterprise Funds			Governmental Activities: Internal Service Fund
	School Nutrition	Latch Key	Total	
Operating revenues:				
Local sources:				
Charges for services	\$ 207,147	58,938	266,085	32,333
Operating expenses:				
Non-instructional programs:				
Food service operations:				
Salaries	101,644	0	101,644	0
Benefits	13,206	0	13,206	0
Services	3,995	0	3,995	0
Supplies	179,095	0	179,095	0
Other	312	0	312	0
Depreciation	806	0	806	0
Total operating expenses	299,058	0	299,058	0
Other enterprise operations:				
Salaries	0	31,391	31,391	0
Benefits	0	3,542	3,542	34,233
Supplies	0	5,741	5,741	0
Total operating expenses	0	40,674	40,674	34,233
Total non-instruction programs	299,058	40,674	339,732	34,233
Operating income(loss)	(91,911)	18,264	(73,647)	(1,900)
Non-operating revenues:				
State sources	4,282	0	4,282	0
Federal sources	80,818	0	80,818	0
Interest income	696	0	696	0
Total non-operating revenues	85,796	0	85,796	0
Change in net assets	(6,115)	18,264	12,149	(1,900)
Net assets beginning of year	8,139	15,550	23,689	3,486
Net assets end of year	\$ 2,024	33,814	35,838	1,586

SEE NOTES TO FINANCIAL STATEMENTS.



UNDERWOOD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2007

	Business-Type Activities: Enterprise Funds			Governmental Activities: Internal Service Fund
	School Nutrition	Latch Key	Total	
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 203,915	0	203,915	0
Cash received from miscellaneous operating activities	3,387	58,938	62,325	32,333
Cash payments to employees for services	(115,025)	(34,791)	(149,816)	(34,233)
Cash payments to suppliers for goods or services	(163,041)	(5,741)	(168,782)	0
Net cash provided by(used in) operating activities	(70,764)	18,406	(52,358)	(1,900)
Cash flows from non-capital financing activities:				
State grants received	4,282	0	4,282	0
Federal grants received	61,397	0	61,397	0
Net cash provided by non-capital financing activities	65,679	0	65,679	0
Cash flows from capital and related financing activities:				
Purchase of capital assets	(1,494)	0	(1,494)	0
Net cash used in capital and related financing activities	(1,494)	0	(1,494)	0
Cash flows from investing activities:				
Interest on investments	696	0	696	0
Net cash provided by investing activities	696	0	696	0
Net increase(decrease) in cash and cash equivalents	(5,883)	18,406	12,523	(1,900)
Cash and cash equivalents at beginning of year	18,410	19,107	37,517	3,486
Cash and cash equivalents at end of year	\$ 12,527	37,513	50,040	1,586
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:				
Operating income(loss)	\$ (91,911)	18,264	(73,647)	(1,900)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:				
Commodities consumed	19,421	0	19,421	0
Depreciation	806	0	806	0
Decrease in inventories	940	0	940	0
Increase(Decrease) in salaries and benefits payable	(175)	142	(33)	0
Increase in unearned revenue	155	0	155	0
Net cash provided by(used in) operating activities	\$ (70,764)	18,406	(52,358)	(1,900)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:				
Current assets:				
Cash and pooled investments	\$ 12,527	37,513	50,040	1,586
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:				

During the year ended June 30, 2007, the District received Federal commodities valued at \$19,421.  
SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2007

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
	<u>Fund</u>
ASSETS	
Cash and pooled investments	\$ 17,529
TOTAL ASSETS	<u>17,529</u>
LIABILITIES	<u>0</u>
NET ASSETS	
Reserved for scholarships	<u>\$ 17,529</u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2007

	Private Purpose Trust Scholarship Fund
Additions:	
Local sources:	
Interest income	\$ 865
Total additions	<u>865</u>
Deletions:	
Instruction:	
Scholarships awarded	<u>1,248</u>
Total deletions	<u>1,248</u>
Change in net assets before other financing sources	(383)
Other financing sources(uses):	
Transfer in	20,862
Transfer out	(2,950)
Total other financing sources(uses)	<u>17,912</u>
Change in net assets	17,529
Net assets beginning of year	<u>0</u>
Net assets end of year	<u>\$ 17,529</u>

SEE NOTES TO FINANCIAL STATEMENTS.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**(1) Summary of Significant Accounting Policies**

The Underwood Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Underwood, Iowa, and the predominate agricultural territory in Pottawattamie County. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Underwood Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Underwood Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Pottawattamie County Assessors' Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following proprietary funds:

The District's proprietary funds are the Enterprise Funds, School Nutrition Fund and Latch Key and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Latch Key Fund is used to account for child care services. The Internal Service Fund is used to account for the flex benefits for

employees of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and the Statement of Activities.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

#### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements

issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Interfund Receivables and Payables - During the course of its operations, the District has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2007 balances of interfund accounts receivable or payable have been recorded.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Land improvements	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the



current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the non-instructional programs function exceeded the amount budgeted.

#### **(2) Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of

deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified portfolio	<u>\$ 2,172,102</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

### (3) Interfund Receivables and Payables

Individual interfund receivable and payable balances at June 30, 2007 are as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue, Physical Plant and Equipment Levy	General	<u>\$ 402</u>

The General Fund is repaying the Special Revenue, Physical Plant and Equipment Levy Fund for Drug Free Grant security items. The balance will be repaid by June 30, 2008.

### (4) Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Private Purpose Trust	Special Revenue, Expendable Trust	\$ 20,862
Special Revenue, Student Activity	Private Purpose Trust	2,950
Total		<u>\$ 23,812</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

##### (5) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 97,590	0	0	97,590
Construction in progress	0	774,473	0	774,473
Total capital assets not being depreciated	<u>97,590</u>	<u>774,473</u>	<u>0</u>	<u>872,063</u>
Capital assets being depreciated:				
Buildings	2,606,970	59,822	0	2,666,792
Land improvements	525,003	97,284	0	622,287
Machinery and equipment	1,584,586	24,201	0	1,608,787
Total capital assets being depreciated	<u>4,716,559</u>	<u>181,307</u>	<u>0</u>	<u>4,897,866</u>
Less accumulated depreciation for:				
Buildings	1,808,668	44,805	0	1,853,473
Land improvements	508,630	6,463	0	515,093
Machinery and equipment	1,460,183	38,844	0	1,499,027
Total accumulated depreciation	<u>3,777,481</u>	<u>90,112</u>	<u>0</u>	<u>3,867,593</u>
Total capital assets being depreciated, net	<u>939,078</u>	<u>91,195</u>	<u>0</u>	<u>1,030,273</u>
Governmental activities capital assets, net	<u>\$ 1,036,668</u>	<u>865,668</u>	<u>0</u>	<u>1,902,336</u>
Business-type activities:				
Machinery and equipment	\$ 32,071	1,494	0	33,565
Less accumulated depreciation	27,509	806	0	28,315
Business-type activities capital assets, net	<u>\$ 4,562</u>	<u>688</u>	<u>0</u>	<u>5,250</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 3,456
Other	4,473
Support services:	
Administration services	1,356
Operation and maintenance of plant services	3,111
Transportation services	26,448
	<u>38,844</u>
Unallocated depreciation	<u>51,268</u>
Total governmental activities depreciation expense	<u>\$ 90,112</u>
Business-type activities:	
Food services	<u>\$ 806</u>

#### (6) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 0	5,445,000	0	5,445,000	90,000
Early retirement	16,399	70,180	16,399	70,180	70,180
Total	<u>\$ 16,399</u>	<u>5,515,180</u>	<u>16,399</u>	<u>5,515,180</u>	<u>160,180</u>

#### General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of May 1, 2003			
	Interest Rates	Principal	Interest	Total
2008	4.25 %	\$ 90,000	313,535	833,200
2009	4.25	205,000	217,494	836,550
2010	4.25	215,000	208,781	833,330
2011	4.25	220,000	199,644	828,720
2012	4.25	230,000	190,293	832,695
2013-2017	4.00-4.25	1,310,000	799,995	832,695
2018-2022	4.00	1,615,000	513,792	832,695
2023-2026	4.00-4.125	1,560,000	161,476	834,800
Total		<u>\$ 5,445,000</u>	<u>2,605,010</u>	<u>6,664,685</u>

#### Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed ten years of continuous service to the District. Employees must complete an application, which is subject to be approval by the Board of Education. Early retirement incentives are based on a percentage of the salary and

the number of years of service. Early retirement benefits paid during the year ended June 30, 2007, totaled \$16,399. A liability has been recorded in the government-wide financial statements representing the District's commitment to fund non-current early retirement.

**(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$198,393, \$191,489 and \$179,683, respectively, equal to the required contributions for each year.

**(8) Risk Management**

The Underwood Community School District is a member in the Iowa School Employees Benefits Association, fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: life and long-term disability.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2007 were \$10,805.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

Underwood Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$222,271 for the year ended June 30, 2007 and is recorded in the General Fund

by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2007, expenditures in the non-instructional programs function exceeded the amount budgeted.

**(11) Deficit Net Assets**

At June 30, 2007, there was a deficit unrestricted net asset balance in the Enterprise, School Nutrition Fund of \$3,226.

**(12) Construction Commitment**

The District has entered into various contracts totaling \$7,233,446 for the New Middle School/Elementary Expansion Project. As of June 30, 2007, costs of \$774,473 had been incurred against the contracts. The balance of \$6,458,973 remaining at June 30, 2007 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 3,832,694	266,781	4,099,475	4,136,867	4,136,867	(37,392)
State sources	3,188,309	4,282	3,192,591	3,295,769	3,295,769	(103,178)
Federal sources	107,984	80,818	188,802	138,000	138,000	50,802
Total revenues	7,128,987	351,881	7,480,868	7,570,636	7,570,636	(89,768)
Expenditures:						
Instruction	3,713,901	0	3,713,901	4,249,848	4,249,848	535,947
Support services	2,095,728	0	2,095,728	2,368,935	2,368,935	273,207
Non-instructional programs	0	339,732	339,732	333,113	333,113	(6,619)
Other expenditures	1,347,472	0	1,347,472	2,728,704	2,728,704	1,381,232
Total expenditures	7,157,101	339,732	7,496,833	9,680,600	9,680,600	2,183,767
Excess(deficiency) of revenues over(under) expenditures	(28,114)	12,149	(15,965)	(2,109,964)	(2,109,964)	(2,093,999)
Other financing sources, net	5,489,738	0	5,489,738	1,500	1,500	(5,488,238)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	5,461,624	12,149	5,473,773	(2,108,464)	(2,108,464)	(7,582,237)
Balance beginning of year	2,311,644	23,689	2,335,333	2,185,052	2,185,052	150,281
Balance end of year	\$ 7,773,268	35,838	7,809,106	76,588	76,588	7,732,518

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



UNDERWOOD COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures in the non-instructional programs function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2007

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
<b>Assets</b>						
Cash and pooled investments	\$ 70,858	72,833	27,722	171,413	3,074	174,487
Receivables:						
Property tax:						
Current year delinquent	974	0	410	1,384	0	1,384
Succeeding year	165,192	0	56,319	221,511	403,935	625,446
Interfund	0	0	402	402	0	402
<b>Total Assets</b>	<b>\$ 237,024</b>	<b>72,833</b>	<b>84,853</b>	<b>394,710</b>	<b>407,009</b>	<b>801,719</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	\$ 165,192	0	56,319	221,511	403,935	625,446
Total liabilities	165,192	0	56,319	221,511	403,935	625,446
Fund balances:						
Reserved for debt service	0	0	0	0	3,074	3,074
Unreserved	71,832	72,833	28,534	173,199	0	173,199
Total fund balances	71,832	72,833	28,534	173,199	3,074	176,273
<b>Total Liabilities and Fund Balances</b>	<b>\$ 237,024</b>	<b>72,833</b>	<b>84,853</b>	<b>394,710</b>	<b>407,009</b>	<b>801,719</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds					Total	
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 124,920	0	53,520	0	178,440	0	178,440
Other	8,257	236,466	6,120	0	250,843	0	250,843
State sources	87	0	37	0	124	0	124
Federal sources	0	0	14,608	0	14,608	0	14,608
TOTAL REVENUES	133,264	236,466	74,285	0	444,015	0	444,015
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	16,399	0	0	0	16,399	0	16,399
Other instruction	0	228,119	0	0	228,119	0	228,119
	16,399	228,119	0	0	244,518	0	244,518
Support services:							
Administration services	7,923	0	0	0	7,923	0	7,923
Operation and maintenance of plant services	102,158	0	0	0	102,158	0	102,158
Transportation services	0	0	3,000	0	3,000	0	3,000
	110,081	0	3,000	0	113,081	0	113,081
Other expenditures:							
Facilities acquisitions	0	0	61,073	0	61,073	0	61,073
TOTAL EXPENDITURES	126,480	228,119	64,073	0	418,672	0	418,672
EXCESS OF REVENUES OVER EXPENDITURES	6,784	8,347	10,212	0	25,343	0	25,343
OTHER FINANCING SOURCES(USES):							
Accrued interest on bonds	0	0	0	0	0	3,074	3,074
Transfers in	0	2,950	0	0	2,950	0	2,950
Transfers out	0	0	0	(20,862)	(20,862)	0	(20,862)
Proceeds from the disposal of property	0	0	3,198	0	3,198	0	3,198
Total other financing sources(uses)	0	2,950	3,198	(20,862)	(14,714)	3,074	(11,640)
Net change in fund balance	6,784	11,297	13,410	(20,862)	10,629	3,074	13,703
Fund balance beginning of year	65,048	61,536	15,124	20,862	162,570	0	162,570
Fund balance end of year	\$ 71,832	72,833	28,534	0	173,199	3,074	176,273

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues/ Transfers in	Expendi- tures	Balance End of Year
Drama/Speech	\$ 12	1,220	1,232	0
Band Activity	1,149	12,701	11,858	1,992
Track Activity	456	3,427	4,192	(309)
Basketball Activity	383	5,494	5,279	598
Football Activity	175	7,073	4,653	2,595
Baseball Activity	(1,887)	2,268	1,639	(1,258)
Wrestling Activity	51	1,588	1,294	345
Volleyball Activity	48	2,431	2,135	344
Softball Activity	(541)	3,267	2,496	230
Activity Tickets	913	13,052	8,356	5,609
Golf Activity	662	423	472	613
Elementary Art Club	1,612	7,349	5,715	3,246
Baseball Club	1,564	13,394	15,383	(425)
Cheerleading	2	870	872	0
High School Art Club	1,050	1,181	1,817	414
High School Concessions	(1,592)	12,390	11,666	(868)
Cross Country Club	(33)	536	557	(54)
Boys Basketball Club	1,663	7,382	7,412	1,633
FFA Account	3,431	240	0	3,671
Interest	264	4,713	4,604	373
Girls Basketball Club	585	5,368	4,541	1,412
Library Club	710	0	138	572
Football Club	1,910	5,495	5,102	2,303
Drill Team	2,550	8,054	9,684	920
Middle School Pop/Juice	966	6,030	6,820	176
High School Pop/Juice	1,388	10,492	10,733	1,147
Revolving	(185)	1,053	977	(109)
Soda	221	0	0	221
High School Science Club	18	725	647	96
Softball Club	2,561	10,605	11,394	1,772
Elementary Student Council	1,375	850	412	1,813
Middle School Student Council	239	2,829	2,979	89
High School Student Council	850	521	753	618
High School Boys Track Club	(289)	0	(289)	0
FCCLA/FHA Account	511	545	930	126
High Vocal Activity	2,425	2,710	1,559	3,576
High School Volleyball Club	1,888	2,630	2,284	2,234
Weightlifting Club	243	2,053	1,640	656
Softball Pitching	306	0	140	166
High School Wrestling Club	(617)	4,420	2,993	810
High School Yearbook	651	3,727	5,637	(1,259)
High School Girls Track Club	818	42	172	688
Wrestling Camp	14	0	0	14

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues/ Transfers in	Expendi- tures	Balance End of Year
Basketball Cheerleading	2,607	1,998	2,312	2,293
Football Cheerleading	799	3,237	2,686	1,350
Wrestling Cheerleading	412	320	348	384
Elementary Field Trip	72	2,747	2,749	70
Elementary Student Directory	606	227	0	833
Middle School Leadership	1,241	1,354	1,674	921
Peers	158	0	0	158
Middle School Quest	2,127	993	498	2,622
SOS Account	532	0	0	532
Sweatshirts	(152)	2,577	3,345	(920)
Middle School TAG	17	0	0	17
Alumni	581	0	160	421
Spanish Club	180	0	0	180
JH Volleyball Club	19	421	406	34
Jump Rope for Heart	130	2,414	2,414	130
Elementary Playground Acct	17	0	0	17
Fellowship Athletes	79	0	0	79
Middle School Wrestling Club	(1,177)	1,177	0	0
Middle School Yearbook	837	0	0	837
Middle School Activity Center	1,190	577	0	1,767
Middle School Vocal Activity	2,420	2,000	837	3,583
Elementary Music	1,646	1,331	833	2,144
Home/School Partnership	57	0	0	57
Elementary PAC	7,116	16,396	16,163	7,349
JH Girls Track Club	80	0	0	80
Girard Memorial Library Fund	61	71	0	132
Special Ed Project	0	139	0	139
Wrestling Mat Fund	2,000	0	0	2,000
Band Flag Corp	0	1,034	706	328
JH Football Club	17	1,314	1,331	0
JH Basketball Club	15	386	392	9
JH Boys Track Club	(396)	2,240	2,051	(207)
Class of 2006	(130)	0	(130)	0
Class of 2007	1,194	1,469	2,987	(324)
Class of 2008	2,382	2,532	4,080	834
Class of 2009	0	3,348	1,788	1,560
District 8 Football	0	1,600	695	905
MS Concessions	1,874	3,297	3,313	1,858
Adopt Instrument Fund	1,610	2,872	4,463	19
Band/Chicago Trip	0	9,246	9,230	16
BB/SB Complex	2,795	2,951	1,910	3,836
Total	\$ 61,536	239,416	228,119	72,833

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECTS FUNDS  
 JUNE 30, 2007

	Capital Project Funds		
	GO Bond Construction	Local Option Sales and Services Tax	Total Capital Projects
<b>ASSETS</b>			
Cash and pooled investments	\$ 5,556,181	1,462,454	7,018,635
Due from other governments	0	41,297	41,297
<b>TOTAL ASSETS</b>	<b>\$ 5,556,181</b>	<b>1,503,751</b>	<b>7,059,932</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 0	74,915	74,915
Total liabilities	0	74,915	74,915
Fund balances:			
Reserved:			
Capital facility construction	5,556,181	0	5,556,181
Unreserved	0	1,428,836	1,428,836
Total fund balances	5,556,181	1,428,836	6,985,017
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 5,556,181</b>	<b>1,503,751</b>	<b>7,059,932</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 CAPITAL PROJECTS FUNDS  
 YEAR ENDED JUNE 30, 2007

	Capital Projects Fund		
	GO Bond Construction	Local Option Sales and Services Tax	Total
REVENUES:			
Local sources			
Local tax	\$ 0	535,021	535,021
Other	164,094	76,955	241,049
Total revenues	164,094	611,976	776,070
EXPENDITURES:			
Current			
Support services:			
Administrative services	0	15,881	15,881
Other expenditures:			
Facilities acquisitions	54,450	954,912	1,009,362
Long-term debt:			
Costs of issuance	54,766	0	54,766
Total expenditures	109,216	970,793	1,080,009
Excess(deficiency) of revenues over(under) expenditures	54,878	(358,817)	(303,939)
OTHER FINANCING SOURCES:			
Issuance of general obligation bonds	5,445,000	0	5,445,000
Premium on the issuance of bonds	56,303	0	56,303
TOTAL OTHER FINANCING SOURCES	5,501,303	0	5,501,303
Net change in fund balances	5,556,181	(358,817)	5,197,364
Fund balance beginning of year	0	1,787,653	1,787,653
Fund balance end of year	\$ 5,556,181	1,428,836	6,985,017

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUNDS  
 COMBINING BALANCE SHEET  
 JUNE 30, 2007

Private Purpose Trust - Scholarship Fund					
	Armstrong Scholarship	Boyer Scholarship	Torneton Scholarship	Wyland Scholarship	Total
ASSETS					
Cash and pooled investments	\$ 5,572	7,673	642	3,642	17,529
TOTAL ASSETS	5,572	7,673	642	3,642	17,529
LIABILITIES	0	0	0	0	0
NET ASSETS:					
Reserved for scholarships	\$ 5,572	7,673	642	3,642	17,529

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUNDS  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 YEAR ENDED JUNE 30, 2007

	Private Purpose Trust - Scholarship Fund					Total
	Armstrong Scholarship	Boyer Scholarship	Torneton Scholarship	Wyland Scholarship	Martin Memorial	
REVENUES:						
Local sources:						
Interest income	\$ 343	323	0	199	0	865
TOTAL REVENUES	343	323	0	199	0	865
EXPENSES:						
Instruction:						
Regular instruction:						
Scholarships	264	284	0	100	600	1,248
TOTAL EXPENSES	264	284	0	100	600	1,248
Change in net assets before other financing sources	79	39	0	99	(600)	(383)
OTHER FINANCING SOURCES(USES):						
Transfer in	5,493	7,634	642	3,543	3,550	20,862
Transfer out	0	0	0	0	(2,950)	(2,950)
TOTAL OTHER FINANCING SOURCES(USES)	5,493	7,634	642	3,543	600	17,912
Change in net assets	5,572	7,673	642	3,642	0	17,529
NET ASSETS BEGINNING OF YEAR	0	0	0	0	0	0
NET ASSETS END OF YEAR	\$ 5,572	7,673	642	3,642	0	17,529

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
ALL GOVERNMENTAL FUND TYPES  
FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$	2,684,647	2,498,730	2,207,926	2,233,396
Tuition		530,597	496,622	489,707	399,863
Other		617,450	414,695	478,538	334,416
State sources		3,188,309	3,036,025	2,847,711	2,651,484
Federal sources		107,984	104,438	86,427	50,790
Total	\$	7,128,987	6,550,510	6,110,309	5,669,949
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	2,524,275	2,534,795	2,387,862	2,356,053
Special instruction		578,620	543,956	505,093	543,316
Other instruction		611,006	613,966	614,014	470,998
Support services:					
Student services		150,554	152,881	167,985	149,960
Instructional staff services		222,390	215,561	221,128	183,763
Administration services		798,067	702,332	665,318	554,918
Operation and maintenance of plant services		608,972	609,510	650,068	597,250
Transportation services		315,745	337,581	347,764	259,036
Non-instructional programs		0	0	1,207	4,044
Other expenditures:					
Facilities acquisitions		1,070,435	69,183	87,497	127,711
Long-term debt:					
Interest and fiscal charges		54,766	0	0	0
AEA flow-through		222,271	206,685	194,509	189,817
Total	\$	7,157,101	5,986,450	5,842,445	5,436,866

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

To the Board of Education of the  
Underwood Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Underwood Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 12, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Underwood Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Underwood Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Underwood Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Underwood Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Underwood Community School District's financial statements that is more than inconsequential will not be prevented or detected by Underwood Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Underwood Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Underwood Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Underwood Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Underwood Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Underwood Community School District and other parties to whom Underwood Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Underwood Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 12, 2008

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- I-A-07 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- I-B-07 Gate Admissions - The gate admissions were not always reconciled to pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for all gate admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - We will be reviewing our procedures.

Conclusion - Response accepted.

- I-C-07 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from. A more specific example of these instances is as follows:

Donations from Target and Box Tops for Education recorded in the middle school and elementary funds. These donations do not specify the purpose other than instructional supplies; therefore, they should be receipted into the General Fund for use in all instructional supplies/services.

The District received refunds as an incentive for recycling empty printer cartridges. These refunds appear instructional in nature; therefore, they should be receipted into the General Fund.

The District purchased PAC computers out of the Student Activity Fund. The computers appear to be instructional in nature; therefore, they should be purchased out of the General Fund.

There are Interest accounts. These accounts should be allocated among the Student Activity Funds that earned the interest. This allocation should be done at least annually. Interest earned should be distributed to individual accounts within the Student Activity Fund.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended. The interest account needs to be allocated during the year.

Response - We will change our procedures, expenditures for instructional purposes will be made from the General Fund and we will allocate to the other accounts at least annually.

Conclusion - Response accepted.

- I-D-07 Purchase Orders - We noted during our audit that some disbursements did not have purchase orders and the purchase orders that were present were not pre-numbered. Several purchase orders were also noted having invoices dated after the purchase order date.

Recommendation - Better internal control is achieved when pre-numbered purchase orders are used and the sequence is monitored. The District should review the purchase order system in place. Purchase orders provide approval to order, therefore, pre-numbered purchase orders should be approved by the administrator before the ordering of supplies takes place.

Response - We do have a numbering system in place, will keep monitoring the approval process to ensure that purchase orders are approved before the ordering of supplies take place.

Conclusion - Response acknowledged. A pre-numbered system for purchase orders is recommended.

- I-E-07 Gift Card Incentives to Students - We noted during our audit that the Student Activity Fund purchased gift cards which were given as incentives to students.

Recommendation - The purchase of gift cards as incentives do not appear to meet public purpose. The District should not give incentives to students.

Response - We no longer will be giving gift cards as incentives for students.

Conclusion - Response accepted.

UNDERWOOD COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-07 Certified Budget - District expenditures for the year ended June 30, 2007 exceeded the certified budget amounts in the non-instructional programs function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - The process is being monitored and procedures are in place to amend the budget in a timely manner.

Conclusion - Response accepted.

- II-B-07 Questionable Disbursements - We noted disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979. (See comment I-E-07.)

- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-07 Business Transactions - Business transactions between the District and District officials are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Marsha Slobodnick, Secretary Spouse owns TJ Wood	Bookcases	\$374

In accordance with Attorney's General opinion dated November 9, 1976, the transaction with the spouse of Marsha Slobodnick does not appear to be a conflict of interest.

- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. However, we did note that the District was not receiving the proper interest rate, set by the State Rate Setting Committee, on their Certificate of Deposit.

Recommendation - The District should contact the appropriate bank and rectify the situation.



Response - The bank has been contacted and the interest rate is being adjusted.

Conclusion - Response accepted.

II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-J-07 Deficit Net Assets and Account Balances - We noted during our audit that the District had a deficit unreserved net assets balance of \$3,226 in the Enterprise, School Nutrition Fund. We also noted that there were a several accounts in the Student Activity Fund that had negative individual account balances.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

Response - We will continue to monitor these items and will work on establishing alternatives to eliminate the deficits.

Conclusion - Response accepted.